

Agency Legislative Budget

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding. Also included in the table is HB 447 pay plan allocation.

| Agency Legislative Budget | | | | | | | | |
|---------------------------|-------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|
| Budget Item | Base Budget Fiscal 2004 | PL Base Adjustment Fiscal 2006 | New Proposals Fiscal 2006 | Total Leg. Budget Fiscal 2006 | PL Base Adjustment Fiscal 2007 | New Proposals Fiscal 2007 | Total Leg. Budget Fiscal 2007 | Total Leg. Budget Fiscal 06-07 |
| FTE | 71.50 | 0.00 | 5.00 | 76.50 | 0.00 | 5.00 | 76.50 | 76.50 |
| Personal Services | 3,096,095 | 242,016 | 314,796 | 3,652,907 | 240,982 | 489,131 | 3,826,208 | 7,479,115 |
| Operating Expenses | 733,518 | 334,376 | 2,777,539 | 3,845,433 | 371,591 | 9,774,676 | 10,879,785 | 14,725,218 |
| Grants | 573,215 | 0 | 0 | 573,215 | 0 | 0 | 573,215 | 1,146,430 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$4,402,828 | \$576,392 | \$3,092,335 | \$8,071,555 | \$612,573 | \$10,263,807 | \$15,279,208 | \$23,350,763 |
| General Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| State/Other Special | 4,402,828 | 576,392 | 3,092,335 | 8,071,555 | 612,573 | 10,263,807 | 15,279,208 | 23,350,763 |
| Federal Special | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Funds | \$4,402,828 | \$576,392 | \$3,092,335 | \$8,071,555 | \$612,573 | \$10,263,807 | \$15,279,208 | \$23,350,763 |

Agency Description

The Office of the State Auditor is authorized under Article VI of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Insurance and Securities and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities dealers in the state. The auditor also adopts rules and administers reform for the insurance and securities industries operating in the state. The auditor also serves as a member of the Board of Land Commissioners and the Crop Hail Insurance Board.

The statutory duties of the State Auditor are administered from three divisions: Central Management, Insurance, and Securities. The State Auditor is also a conduit for two “pass through” programs: the Forest Reserve Shared Revenue, and the Fire and Police Retirement Program.

Agency Highlights

| State Auditor's Office Major Budget Highlights | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| <p>Total funding increases of \$14.5 million over the 2004 base year include:</p> <ul style="list-style-type: none"> ◆ New proposals of \$13.3 million for: <ul style="list-style-type: none"> • A \$12.8 million appropriation in I-149 funds and 3 new FTE to establish a Small Business Health Insurance Pool for eligible small employers (HB 667) • \$400,000 to implement the pay plan in HB 447 • \$200,000 for 2 new FTE in the Insurance Program ◆ Statewide and present law adjustments of \$1.2 million for: <ul style="list-style-type: none"> • \$500,000 in personal services • \$24,000 for a contractual 2 percent increase in rent and additional storage space • \$676,000 for costs associated with contract examinations of insurance and investment companies, security contract examinations, and the captive insurance program | |

Summary of Legislative Action

The legislature approved a budget increase of \$14 million state special revenue over the FY 2004 base that includes: 1) \$12.8 million to create a Small Business Health Insurance Pool to provide premium assistance for eligible small employers funded by the cigarette and other tobacco products taxes established in Initiative 149 (HB 667); 2) \$392,000 to implement the pay plan adopted in HB 447; 3) \$217,500 to provide for 2.0 FTE in the Insurance Division; and 4) \$1.2 million in statewide and present law adjustments.

Nearly half of the statewide and present law adjustment amount can be attributed to fully funding the personal services projection for the 2007 biennium.

The legislature also increased state special revenue over the biennium by \$700,000 including rent increases of \$24,000, and costs of conducting insurance and security examinations of \$676,000.

These items are discussed in greater detail in the following program sections.

Legislation related to the State Auditor's Office is discussed in the following funding section.

Funding

The following table shows funding, for the agency, by program and source, as appropriated by the legislature. Funding for each program is discussed in detail in the individual program narratives that follow.

| Total Agency Funding 2007 Biennium Legislative Budget | | | |
|----------------------------------------------------------|----------------------|----------------------|----------------|
| Agency Program | State Spec. | Grand Total | Total % |
| 01 Central Management | \$ 1,218,864 | \$ 1,218,864 | 5.22% |
| 03 Insurance | 20,561,067 | 20,561,067 | 88.05% |
| 04 Securities | <u>1,570,832</u> | <u>1,570,832</u> | <u>6.73%</u> |
| Grand Total | <u>\$ 23,350,763</u> | <u>\$ 23,350,763</u> | <u>100.00%</u> |

The State Auditor's Office receives no general fund. It is funded from state special revenue generated by insurance fees and taxes levied on the insurance industry for the sale of insurance policies in Montana, and security fees charged to the securities industry for the registration of securities and agents or for the notice of a federal filing of a federally secured security. Resident and non-resident companies or individuals conducting insurance or security business in Montana are subject to fees.

In addition to the Small Business Health Insurance Pool and related programs established by HB 667, the legislature continued the \$1.3 million restricted, state special revenue appropriation for the Montana Comprehensive Health Association insurance premium assistance program that is also funded by tobacco settlement proceeds. The program is administered by the Insurance Division under 33-22-1513, MCA, and is for low-income Montanans deemed uninsurable due to medical conditions. There is \$573,215 in each year of the 2007 biennium for use in this program, the same amount appropriated in the last session.

Other Legislation

House Bill 667 – This bill offers tax credits to small businesses that are currently providing health insurance to their employees, and premium incentive and assistance payments to small businesses currently without coverage. The source of funding is the Health and Medicaid Initiatives state special revenue account for the cigarette and other tobacco products taxes established by Initiative 149.

The legislation allocates \$7.6 million over the biennium for implementation and administration of premium assistance and incentive payments within the small business purchasing pool for eligible small employers, and \$6.2 million for implementation and administration of a tax relief / tax credit program to help cover costs of group health insurance. Of the

\$6.2 million, nearly \$1 million is appropriated to the Department of Health and Human Services and \$5.2 million is for the State Auditor's Office. Funding includes \$586,000 over the biennium for personal services (3.0 FTE) and operating costs necessary to implement, promote, and carry out the program.

Senate Bill 486 – This bill revises and clarifies license and contract requirements for viatical settlement brokers and establishes a license application fee. Current licensed insurance brokers will pay a one time \$50 registration fee that will allow them to market viaticals. The State Auditor's Office estimates a financial impact of a one time \$10,000 to state special revenue based upon 200 insurance brokers paying the one time fee. Fees are to be deposited in the state special revenue account of the State Auditor's Office, and fines to the general fund.

Senate Bill 275 – This bill temporarily increases fees collected for the Genetics Program by the State Auditor's Office from \$0.70 to \$1.00. The State Auditor's Office is now to deposit these fees to a state special revenue account rather than the general fund as in prior years. The Department of Public Health and Human Services is appropriated and expends the funds for the Genetics Program. The increase is estimated to be about \$250,000 per year, which brings the spending authority to a total of nearly \$833,000 per year.

Executive Budget Comparison

The following table compares the legislative budget for the 2007 biennium to the budget requested by the Governor, by type of expenditure and source of funding.

| Executive Budget Comparison | | | | | | | | |
|-----------------------------|----------------------------|---------------------------------|-----------------------------------|------------------------------------------|---------------------------------|-----------------------------------|------------------------------------------|----------------------------------------|
| Budget Item | Base Budget Fiscal 2004 | Executive Budget Fiscal 2006 | Legislative Budget Fiscal 2006 | Leg – Exec. Difference Fiscal 2006 | Executive Budget Fiscal 2007 | Legislative Budget Fiscal 2007 | Leg – Exec. Difference Fiscal 2007 | Biennium Difference Fiscal 06-07 |
| FTE | 71.50 | 73.50 | 76.50 | 3.00 | 73.50 | 76.50 | 3.00 | |
| Personal Services | 3,096,095 | 3,433,961 | 3,652,907 | 218,946 | 3,432,655 | 3,826,208 | 393,553 | 612,499 |
| Operating Expenses | 733,518 | 1,084,364 | 3,845,433 | 2,761,069 | 1,114,759 | 10,879,785 | 9,765,026 | 12,526,095 |
| Grants | 573,215 | 573,215 | 573,215 | 0 | 573,215 | 573,215 | 0 | 0 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$4,402,828 | \$5,091,540 | \$8,071,555 | \$2,980,015 | \$5,120,629 | \$15,279,208 | \$10,158,579 | \$13,138,594 |
| General Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| State/Other Special | 4,402,828 | 5,091,540 | 8,071,555 | 2,980,015 | 5,120,629 | 15,279,208 | 10,158,579 | 13,138,594 |
| Federal Special | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Funds | \$4,402,828 | \$5,091,540 | \$8,071,555 | \$2,980,015 | \$5,120,629 | \$15,279,208 | \$10,158,579 | \$13,138,594 |

The increase to the Executive Budget is due to the statewide pay plan and HB 667, which transfers \$ 12.8 million of I-149 tax increase from the Department of Health and Human Services to the State Auditor's Office for implementation and administration of two health insurance programs for small businesses: 1) Premium Assistance for Small Employers; and 2) Provide Tax Relief in the form of Tax Credits.

Program Legislative Budget

The following table summarizes the total legislative budget for the program by year, type of expenditure, and source of funding. Also included in the table is House Bill 447 pay plan allocation.

| Program Legislative Budget | | | | | | | | |
|----------------------------|-------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|
| Budget Item | Base Budget Fiscal 2004 | PL Base Adjustment Fiscal 2006 | New Proposals Fiscal 2006 | Total Leg. Budget Fiscal 2006 | PL Base Adjustment Fiscal 2007 | New Proposals Fiscal 2007 | Total Leg. Budget Fiscal 2007 | Total Leg. Budget Fiscal 06-07 |
| FTE | 10.00 | 0.00 | 0.00 | 10.00 | 0.00 | 0.00 | 10.00 | 10.00 |
| Personal Services | 435,843 | 53,264 | 15,415 | 504,522 | 51,945 | 40,095 | 527,883 | 1,032,405 |
| Operating Expenses | 89,661 | 5,925 | 0 | 95,586 | 1,212 | 0 | 90,873 | 186,459 |
| Total Costs | \$525,504 | \$59,189 | \$15,415 | \$600,108 | \$53,157 | \$40,095 | \$618,756 | \$1,218,864 |
| State/Other Special | 525,504 | 59,189 | 15,415 | 600,108 | 53,157 | 40,095 | 618,756 | 1,218,864 |
| Total Funds | \$525,504 | \$59,189 | \$15,415 | \$600,108 | \$53,157 | \$40,095 | \$618,756 | \$1,218,864 |

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the State Auditor's Office. The division also provides support to the auditor in fulfilling the duties as a member of the state land and hail insurance boards.

Program Highlights

| Central Management Division Major Budget Highlights | |
|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| ♦ | Total funding increases of \$167,000 over the base year are primarily due to statewide present law adjustments |

The legislature approved increases over base year expenditures in statewide adjustments to personal services due to increases associated with raises for the elected official (2-16-405- MCA) and personal staff, as well as standard state raises for the program's non-personal staff.

Funding

The following table shows program funding, by source, for the base year and the 2007 biennium as adopted by the legislature.

| Program Funding Table Central Management | | | | | | | |
|---------------------------------------------|------------------------------|-------------------|----------------------|-------------------|------------------------|-------------------|------------------------|
| Program Funding | | Base FY 2004 | % of Base FY 2004 | Budget FY 2006 | % of Budget FY 2006 | Budget FY 2007 | % of Budget FY 2007 |
| 02000 | Total State Special Funds | \$ 525,504 | 100.0% | \$ 600,108 | 100.0% | \$ 618,756 | 100.0% |
| | 02235 Insurance Fee Account | 495,301 | 94.3% | 565,220 | 94.2% | 582,722 | 94.2% |
| | 02283 Securities Fee Account | 30,203 | 5.7% | 34,888 | 5.8% | 36,034 | 5.8% |
| Grand Total | | <u>\$ 525,504</u> | <u>100.0%</u> | <u>\$ 600,108</u> | <u>100.0%</u> | <u>\$ 618,756</u> | <u>100.0%</u> |

This program is funded from state special revenue generated by fees and taxes for entities conducting insurance or security business in Montana as identified and defined in 33-2-705 through 708, MCA.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

| Present Law Adjustments | | | | | | | | | | |
|------------------------------------------------|-------------|--------------|----------------|-----------------|-----------------|-----------------------|--------------|----------------|-----------------|-----------------|
| -----Fiscal 2006----- | | | | | | -----Fiscal 2007----- | | | | |
| | FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| Personal Services | | | | | 69,924 | | | | | 68,561 |
| Vacancy Savings | | | | | (16,660) | | | | | (16,616) |
| Inflation/Deflation | | | | | (734) | | | | | (733) |
| Fixed Costs | | | | | 5,553 | | | | | 269 |
| Total Statewide Present Law Adjustments | | | | | \$58,083 | | | | | \$51,481 |
| DP 101 - Rent Increase | 0.00 | 0 | 1,106 | 0 | 1,106 | 0.00 | 0 | 1,676 | 0 | 1,676 |
| Total Other Present Law Adjustments | 0.00 | \$0 | \$1,106 | \$0 | \$1,106 | 0.00 | \$0 | \$1,676 | \$0 | \$1,676 |
| Grand Total All Present Law Adjustments | | | | | \$59,189 | | | | | \$53,157 |

DP 101 - Rent Increase - The legislature approved state special revenue funding of \$2,700 over the biennium to cover a 2 percent per year increase in rented space at the old Shodair Children's Home and Hospital building as per the agency's contract. The approved amount represents Central Management's share of the \$24,350 total rent increase.

New Proposals

| New Proposals | | | | | | | | | | |
|-------------------------------------------|-------------|--------------|-----------------|-----------------|-----------------|-----------------------|--------------|-----------------|-----------------|-----------------|
| -----Fiscal 2006----- | | | | | | -----Fiscal 2007----- | | | | |
| Program | FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| DP 6010 - 2007 Biennium Pay Plan - HB 447 | | | | | | | | | | |
| 01 | 0.00 | 0 | 15,415 | 0 | 15,415 | 0.00 | 0 | 40,095 | 0 | 40,095 |
| Total | 0.00 | \$0 | \$15,415 | \$0 | \$15,415 | 0.00 | \$0 | \$40,095 | \$0 | \$40,095 |

DP 6010 - 2007 Biennium Pay Plan - HB 447 - The legislature passed a pay plan in HB 447 that provides an additional 3.5 percent (or \$1,005, whichever is greater) in FY 2006 and an additional 4.0 percent (or \$1,188, whichever is greater) in FY 2007, as well as \$46 per month in insurance contributions in calendar 2006 and an additional \$51 per month in calendar 2007. These amounts represent the program's allocation of costs to fund this pay plan.

Program Legislative Budget

The following table summarizes the total legislative budget for the program by year, type of expenditure, and source of funding. Also included in the table is HB 447 pay plan allocation.

| Program Legislative Budget | | | | | | | | |
|----------------------------|-------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|
| Budget Item | Base Budget Fiscal 2004 | PL Base Adjustment Fiscal 2006 | New Proposals Fiscal 2006 | Total Leg. Budget Fiscal 2006 | PL Base Adjustment Fiscal 2007 | New Proposals Fiscal 2007 | Total Leg. Budget Fiscal 2007 | Total Leg. Budget Fiscal 06-07 |
| FTE | 48.50 | 0.00 | 5.00 | 53.50 | 0.00 | 5.00 | 53.50 | 53.50 |
| Personal Services | 2,134,568 | 133,211 | 281,474 | 2,549,253 | 134,358 | 402,212 | 2,671,138 | 5,220,391 |
| Operating Expenses | 538,261 | 264,850 | 2,777,539 | 3,580,650 | 300,659 | 9,774,676 | 10,613,596 | 14,194,246 |
| Grants | 573,215 | 0 | 0 | 573,215 | 0 | 0 | 573,215 | 1,146,430 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$3,246,044 | \$398,061 | \$3,059,013 | \$6,703,118 | \$435,017 | \$10,176,888 | \$13,857,949 | \$20,561,067 |
| State/Other Special | 3,246,044 | 398,061 | 3,059,013 | 6,703,118 | 435,017 | 10,176,888 | 13,857,949 | 20,561,067 |
| Total Funds | \$3,246,044 | \$398,061 | \$3,059,013 | \$6,703,118 | \$435,017 | \$10,176,888 | \$13,857,949 | \$20,561,067 |

Program Description

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. The Rates and Forms Bureau is responsible for reviewing form filings and rate filings to ensure compliance with the applicable insurance code. The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjusters. The Investigations Bureau investigates insurance code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

During the 2007 biennium, the Insurance Division will implement and administer the Small Business Health Insurance Pool established by the 2005 Legislature through HB 667 to offer tax credits to eligible small business currently providing health insurance to employees and assistance payments to eligible small businesses currently without coverage.

Program Highlights

| Insurance Division Major Budget Highlights | |
|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ♦ | Funding increases are primarily due to new proposals for: <ul style="list-style-type: none"> • A \$12.8 million appropriation of I-149 funds and 3 new FTE to establish a Small Business Health Insurance Pool for eligible small employers (HB 667) • \$272,000 to implement the pay plan in HB 447 • \$200,000 for supervisory positions (2.0 FTE) in the rates and forms division and the policyholder services division |
| ♦ | Additional increases comprise: <ul style="list-style-type: none"> • \$267,000 in statewide present law adjustments • \$16,000 for an increase in rent and additional storage • \$550,000 for costs associated with contract insurance examinations, the captive insurance program, and contract securities examinations |
| ♦ | The legislature maintained a \$1.3 million appropriation to continue the insurance premium assistance program for qualifying low-income Montanans |

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as appropriated by the legislature.

| Program Funding Table | | | | | | | |
|-----------------------|-------------------------------------------|-----------------|----------------------|-------------------|------------------------|-------------------|------------------------|
| Insurance | | | | | | | |
| Program Funding | | Base FY 2004 | % of Base FY 2004 | Budget FY 2006 | % of Budget FY 2006 | Budget FY 2007 | % of Budget FY 2007 |
| 02000 | Total State Special Funds | \$ 3,246,044 | 100.0% | \$ 6,703,118 | 100.0% | \$ 13,857,949 | 100.0% |
| | 02235 Insurance Fee Account | 2,672,829 | 82.3% | 3,258,528 | 48.6% | 3,409,403 | 24.6% |
| | 02769 Health Insurance Premium Assistance | - | - | 1,671,375 | 24.9% | 5,899,001 | 42.6% |
| | 02770 Health Insurance Tax Credits | - | - | 1,200,000 | 17.9% | 3,976,330 | 28.7% |
| | 02789 6901-Chip/Mcha Tobacco Sett Fd | 573,215 | 17.7% | 573,215 | 8.6% | 573,215 | 4.1% |
| Grand Total | | \$ 3,246,044 | 100.0% | \$ 6,703,118 | 100.0% | \$ 13,857,949 | 100.0% |

This program is funded through state special revenue generated from a percentage charged against every insurance policy sold in the state, as well as from charges for insurance company examinations and fees paid by individual agents.

Additional funding comes from the state special revenue account for the cigarette and other tobacco products taxes established by Initiative 149, and appropriated through HB 667 for the Small Business Insurance Pool.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

| Present Law Adjustments | | | | | | | | | |
|-------------------------------------------------|-----------------|------------------|--------------------|------------------|-----------------------|-----------------|------------------|--------------------|------------------|
| -----Fiscal 2006----- | | | | | -----Fiscal 2007----- | | | | |
| FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| Personal Services | | | | 227,705 | | | | | 228,898 |
| Vacancy Savings | | | | (94,494) | | | | | (94,540) |
| Inflation/Deflation | | | | (4,311) | | | | | (4,287) |
| Fixed Costs | | | | 15,609 | | | | | (7,230) |
| Total Statewide Present Law Adjustments | | | | \$144,509 | | | | | \$122,841 |
| DP 301 - Office Rent & Secured Storage Increase | | | | | | | | | |
| 0.00 | 0 | 6,532 | 0 | 6,532 | 0.00 | 0 | 9,432 | 0 | 9,432 |
| DP 305 - Contract Insurance Examinations | | | | | | | | | |
| 0.00 | 0 | 227,820 | 0 | 227,820 | 0.00 | 0 | 283,544 | 0 | 283,544 |
| DP 306 - Captive Insurance | | | | | | | | | |
| 0.00 | 0 | 19,200 | 0 | 19,200 | 0.00 | 0 | 19,200 | 0 | 19,200 |
| Total Other Present Law Adjustments | | | | | | | | | |
| 0.00 | \$0 | \$253,552 | \$0 | \$253,552 | 0.00 | \$0 | \$312,176 | \$0 | \$312,176 |
| Grand Total All Present Law Adjustments | | | | \$398,061 | | | | | \$435,017 |

DP 301 - Office Rent and Secured Storage Increase - The legislature approved an increase of \$15,964 state special revenue for the 2007 biennium to fund the scheduled 2 percent rent increase and additional secured storage space for the office's investigation units. The amount represents the program's share of the agency-wide increase of \$24,350.

DP 305 - Contract Insurance Examinations - The legislature increased state special revenue by \$511,364 over the biennium to allow the agency to conduct insurance contract exams. The amount is designated as a restricted appropriation. Insurance companies reimburse the agency for the cost of examinations.

DP 306 - Captive Insurance - The legislature authorized state special revenue funding of \$38,400 for the 2007 biennium for anticipated growth over the base budget in costs associated with the review of new captive insurance applications. The agency carries \$12,800 in its base budget.

An independent contract actuary reviews each application for financial viability at a cost of \$3,200, which is reimbursed by the applicant. The amount is designated as a restricted appropriation.

New Proposals

| New Proposals | | | | | | | | | | | |
|------------------------------------------------------------|-------------|-----------------|--------------------|--------------------|--------------------|-------------|-----------------|---------------------|--------------------|--------------------|---------------------|
| Program | FTE | Fiscal 2006 | | | | Fiscal 2007 | | | | Federal Special | Total Funds |
| | | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | | |
| DP 303 - Rates and Forms FTE | | | | | | | | | | | |
| 03 | 1.00 | 0 | 59,575 | 0 | 59,575 | 1.00 | 0 | 56,016 | 0 | | 56,016 |
| DP 304 - Policyholder Services FTE | | | | | | | | | | | |
| 03 | 1.00 | 0 | 52,745 | 0 | 52,745 | 1.00 | 0 | 49,212 | 0 | | 49,212 |
| DP 400 - Premium Assistance for Sm. Employers (Restricted) | | | | | | | | | | | |
| 03 | 2.00 | 0 | 1,671,375 | 0 | 1,671,375 | 2.00 | 0 | 5,899,001 | 0 | | 5,899,001 |
| DP 401 - Tax Relief in the form of Tax Credits - HB 667 | | | | | | | | | | | |
| 03 | 1.00 | 0 | 1,200,000 | 0 | 1,200,000 | 1.00 | 0 | 3,976,330 | 0 | | 3,976,330 |
| DP 6010 - 2007 Biennium Pay Plan - HB 447 | | | | | | | | | | | |
| 03 | 0.00 | 0 | 75,318 | 0 | 75,318 | 0.00 | 0 | 196,329 | 0 | | 196,329 |
| Total | 5.00 | \$0 | \$3,059,013 | \$0 | \$3,059,013 | 5.00 | \$0 | \$10,176,888 | \$0 | | \$10,176,888 |

DP 303 - Rates and Forms FTE - The legislature increased state special revenue by \$115,591 over the biennium for 1.00 FTE as a supervisor/bureau chief position to work with existing staff and to help process and expedite the review of insurance policy forms for continued improvement in Montana's speed to market for insurance policy forms.

DP 304 - Policyholder Services FTE - The legislature approved state special revenue funding of \$101,957 over the biennium for 1.00 FTE to supervise and help complete market conduct examinations, as well as to assist with the increased workload due to growth of the insurance industry, Medicare prescription legislation, the federal Health Insurance Portability and Accountability Act (HIPAA), the continuation of changes to state insurance statutes, and the federal Employee Retirement Income Security Act (ERISA).

DP 400 - Premium Assistance for Small Employers (Restricted) - HB 667 - The legislature allocated \$7.6 million in state special revenue over the biennium for implementation and administration of a premium assistance program for eligible small employers. The funding includes \$249,238 in FY 2006 and \$186,855 in FY 2007 for personal services and operating costs necessary to implement and carry out the program.

DP 401 - Tax Relief in the form of Tax Credits - HB 667 - The legislature allocated \$6.276 million in state special revenue over the biennium for implementation and administration of a tax relief / tax credit program, through which small businesses that are currently providing health insurance to their employees receive tax credits to help cover costs of group health insurance. Funding includes \$100,000 in FY 2006 and \$50,000 in FY 2007 for personal services.

DP 6010 - 2007 Biennium Pay Plan - HB 447 - The legislature passed a pay plan in HB 447 that provides an additional 3.5 percent (or \$1,005, whichever is greater) in FY 2006 and an additional 4.0 percent (or \$1,188, whichever is greater) in FY 2007, as well as \$46 per month in insurance contributions in calendar 2006 and an additional \$51 per month in calendar 2007. These amounts represent the program's allocation of costs to fund this pay plan.

Language

The legislature approved the following language for inclusion in HB2:

"Funding in Premium Assistance for Small Employers and Provide Tax Relief in the Form of Tax Credits is contingent upon passage and approval of House Bill No. 667 and may be used only to implement House Bill No. 667. If the Department of Public Health and Human Services is successful in obtaining a Medicaid 1115 waiver for a premium incentive or premium assistance program, the State Auditor's Office shall transfer \$994,000 in State Special revenue in fiscal year 2007 to the Department of Public Health and Human Services to be used to match federal Medicaid funds. Funding for Premium Assistance for Small Employers and Provide Tax Relief in the Form of Tax Credits includes the support of 3 new FTE."

Program Legislative Budget

The following table summarizes the total legislative budget for the program by year, type of expenditure, and source of funding. Also included in the table is HB 447 pay plan allocation.

| Program Legislative Budget | | | | | | | | |
|----------------------------|-------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|-------------------------------------|--------------------------------------|
| Budget Item | Base Budget Fiscal 2004 | PL Base Adjustment Fiscal 2006 | New Proposals Fiscal 2006 | Total Leg. Budget Fiscal 2006 | PL Base Adjustment Fiscal 2007 | New Proposals Fiscal 2007 | Total Leg. Budget Fiscal 2007 | Total Leg. Budget Fiscal 06-07 |
| FTE | 13.00 | 0.00 | 0.00 | 13.00 | 0.00 | 0.00 | 13.00 | 13.00 |
| Personal Services | 525,684 | 55,541 | 17,907 | 599,132 | 54,679 | 46,824 | 627,187 | 1,226,319 |
| Operating Expenses | 105,596 | 63,601 | 0 | 169,197 | 69,720 | 0 | 175,316 | 344,513 |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$631,280 | \$119,142 | \$17,907 | \$768,329 | \$124,399 | \$46,824 | \$802,503 | \$1,570,832 |
| General Fund | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| State/Other Special | 631,280 | 119,142 | 17,907 | 768,329 | 124,399 | 46,824 | 802,503 | 1,570,832 |
| Federal Special | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Funds | \$631,280 | \$119,142 | \$17,907 | \$768,329 | \$124,399 | \$46,824 | \$802,503 | \$1,570,832 |

Program Description

The Securities Division is responsible for the administration and enforcement of the Securities Act of Montana and, in particular, for the registration of securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives. The division also is responsible for the investigation of unregistered and fraudulent securities transactions. The division has sole jurisdiction for investment advisor firms with assets of under \$25 million. The Investigations Bureau investigates securities code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

Program Highlights

| Securities Division Major Budget Highlights | |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ♦ | Total funding increases of \$308,000 over the base year budget are due to: <ul style="list-style-type: none"> • \$111,000 in statewide present law adjustments • \$5,600 for the 2 percent increase in rent • \$65,000 for the pay plan in HB 447 • \$126,600 for increased funding for costs associated with security contract examinations |

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as appropriated by the legislature.

| Program Funding Table | | | | | | | |
|-----------------------|------------------------------|-----------------|----------------------|-------------------|------------------------|-------------------|------------------------|
| Securities | | | | | | | |
| Program Funding | | Base FY 2004 | % of Base FY 2004 | Budget FY 2006 | % of Budget FY 2006 | Budget FY 2007 | % of Budget FY 2007 |
| 02000 | Total State Special Funds | 631,280 | 100.0% | 768,329 | 100.0% | 802,503 | 100.0% |
| | 02283 Securities Fee Account | 631,280 | 100.0% | 768,329 | 100.0% | 802,503 | 100.0% |
| Grand Total | | \$ 631,280 | 100.0% | \$ 768,329 | 100.0% | \$ 802,503 | 100.0% |

This program is funded with state special revenue from the securities fee account, which draws its revenue from securities portfolio registration fees charged to investment advisors and investment companies, as well as from security licenses and permits. In accordance with 30-1-115, MCA, unspent collections from security licenses and permits are deposited to the general fund. Deposits to the general fund were approximately \$2.1 million in FY 2004.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

| Present Law Adjustments | | | | | | | | | |
|-------------------------------------------------|-----------------|------------------|--------------------|------------------|-----------------------|-----------------|------------------|--------------------|------------------|
| -----Fiscal 2006----- | | | | | -----Fiscal 2007----- | | | | |
| FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| Personal Services | | | | 79,758 | | | | | 78,860 |
| Vacancy Savings | | | | (24,217) | | | | | (24,181) |
| Inflation/Deflation | | | | (1,246) | | | | | (1,236) |
| Fixed Costs | | | | 1,643 | | | | | 1,972 |
| Total Statewide Present Law Adjustments | | | | \$55,938 | | | | | \$55,415 |
| DP 401 - Office Rent & Secured Storage Increase | | | | | | | | | |
| 0.00 | 0 | 2,412 | 0 | 2,412 | 0.00 | 0 | 3,192 | 0 | 3,192 |
| DP 403 - Contract Securities Examinations | | | | | | | | | |
| 0.00 | 0 | 60,792 | 0 | 60,792 | 0.00 | 0 | 65,792 | 0 | 65,792 |
| Total Other Present Law Adjustments | | | | | | | | | |
| 0.00 | \$0 | \$63,204 | \$0 | \$63,204 | 0.00 | \$0 | \$68,984 | \$0 | \$68,984 |
| Grand Total All Present Law Adjustments | | | | \$119,142 | | | | | \$124,399 |

DP 401 - Office Rent and Secured Storage Increase - The legislature approved an increase of \$5,604 state special revenue for the 2007 biennium to fund the scheduled 2 percent rent increase and additional secured storage space at the Shodair Children's Home and Hospital building. This increase represents the program's share of the \$24,350 agency-wide amount.

DP 403 - Contract Securities Examinations - The legislature increased state special revenue for securities contract exams by \$126,584 over the biennium, and designated the amount as a restricted appropriation. The cost of the examinations is offset by reimbursements from the security companies. The approved authority is based upon the agency's examination schedule for the 2007 biennium.

New Proposals

| New Proposals | | | | | | | | | | |
|-------------------------------------------|-------------|-----------------|------------------|--------------------|-----------------|-----------------------|-----------------|------------------|--------------------|-----------------|
| -----Fiscal 2006----- | | | | | | -----Fiscal 2007----- | | | | |
| Program | FTE | General Fund | State Special | Federal Special | Total Funds | FTE | General Fund | State Special | Federal Special | Total Funds |
| DP 6010 - 2007 Biennium Pay Plan - HB 447 | | | | | | | | | | |
| 04 | 0.00 | 0 | 17,907 | 0 | 17,907 | 0.00 | 0 | 46,824 | 0 | 46,824 |
| Total | 0.00 | \$0 | \$17,907 | \$0 | \$17,907 | 0.00 | \$0 | \$46,824 | \$0 | \$46,824 |

DP 6010 - 2007 Biennium Pay Plan - HB 447 - The legislature passed a pay plan in HB 447 that provides an additional 3.5 percent (or \$1,005, whichever is greater) in FY 2006 and an additional 4.0 percent (or \$1,188, whichever is greater) in FY 2007, as well as \$46 per month in insurance contributions in calendar 2006 and an additional \$51 per month in calendar 2007. These amounts represent the program's allocation of costs to fund this pay plan.